MEASURES TO BREAK THE BANKING UNION DEADLOCK

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Unlocking the Banking Union's full existing potential

Substantial progress has been made in recent years towards deeper integration within the Banking Union. Looking back, we have already made significant progress. However, a fully completed Banking Union – replete with its currently missing third pillar – still holds immense potential for the European Economic Area and its global competitiveness.

For much of the Banking Union's existence, cross-border mergers and acquisitions have been absent. In recent times however, we have witnessed several initiatives for cross-border mergers and acquisitions. In this context, I would also like to commend European supervisory authorities' clear and swift decision-making ability. However, it should also be highlighted that the limited activity observed to date has primarily been due to political challenges that have discouraged banks from pursuing cross-border strategies rather than regulatory restraints. It is worth considering whether the completion of the third pillar of the Banking Union would lead to an even greater increase in cross-border activity.

The existing Banking Union framework's full potential has not yet been fully utilized: this is particularly true regarding for example capital and liquidity waivers for cross-border banking groups. Although current regulations already permit such capital and liquidity waivers, we often use the excuse about the lack of a third pillar, despite one not even being necessary in such cases. Under the current regulatory framework, liquidity and capital could be managed internally within banking groups. In principle, supervisors would then only assess capital and liquidity on a consolidated basis: the physical location of the capital should be irrelevant within a functioning Banking Union. National interests and ring-fencing practices mean that we don't see many examples. So from my perspective, the valid question arises following many years of the existing Banking Union, about why such flexibility is not being used more frequently.

Despite the Banking Union's existence and the fact that significant institutions fall under direct ECB supervision, do ring-fencing practices arise from a lack of mutual trust in national policy frameworks? If so, the core issue is not regulatory in nature, but rather one of confidence: in fact, the Banking Union's current institutional framework should already provide an adequate basis for a far greater degree of mutual trust among member states.

That should also be the case as liquidity and capital waivers would not burden national deposit guarantee schemes, since they would mainly concern cross-border groups that are subject to SRB supervision. In the event of such a cross-border bank encountering difficulties, it would become a resolution case, and if support were necessary, it would be provided primarily by the already Europeanised Single Resolution Fund, which exists for such eventualities, rather than by national deposit guarantee schemes.

Consequently, one of the real impediments lies in the fact that we are not fully leveraging the benefits of the Banking Union, despite having the necessary regulatory instruments at our disposal.

One major deliverable milestone of EDIS could be the creation of a unified liquidity pool. Under a payout event, this shared pool would allow national deposit guarantee schemes to access additional, more cost-effective liquidity through credit operations.

In addition, the continuing lack of EDIS raises national concerns over converting subsidiaries into branches in cross-border institutions. With "Branchification" the guarantee of the eligible deposits is shifted from the host national deposit guarantee scheme to the home deposit guarantee scheme: however, previous contributions held in the host national deposit guarantee fund are not fully transferred. A complete and functioning EDIS would ensure a more equitable financial burden sharing between member states in a payout event.

The existing Banking Union framework's full potential has yet to be utilized.

Achieving fully integrated Banking Union depends on the will of all sides. Room still exists for further deepening the integration under the existing framework. In contrast, framing the issue of the incomplete Banking Union as a challenge for supervisory authorities only reverses the causal relationship: once political consensus is reached, supervisory alignment will follow. Supervisory authorities are neither the root cause of the incomplete Banking Union, nor in a position to resolve it. Instead, they embody the "European mindset" as a stable foundation for further progress—and through which the Banking Union's full potential can ultimately be unlocked.

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How well (foreign) banks play their role in financing the Slovenian economy?

The banking sector continues to serve as the foundation of the European financial system, acting as the primary channel for external financing households and businesses. This is particularly evident in countries like Slovenia, where bank-based financing continues to dominate. At the EU level, the nr. of banks has steadily declined due to consolidation and cross-border mergers, though significant differences in banking sector size persist. In 2020, Germany accounted for 28% of all EU banks, followed by Poland (11%), Austria and Italy (each 9%). Given that the EU comprises of around 5.000 credit institutions and branches, there exist a substantial nr. of research analysing the relationship between bank lending, profitability, and non-preforming loans (NPLs). The available data and statistics thus provide a clear compelling picture of the sector dynamics both in the EU and within the (host) member states. Following the 2013 Country-Specific Recommendations (CSR) on bank privatisation and in the wake of aggravating global financial crisis, Slovenia's banking sector underwent a major restructuring. The entry of foreign owners—driven by the opportunity to acquire relevant market shares on very favourable terms—coincided with the implementation of stricter prudential standards under Basel III.

Centralised supervision and resolution mechanisms, while valuable, may disproportionately affect smaller banks and local financing needs. Foreign-owned banks are now key players in Slovenia's economy, yet they are not always systemically important, given the relative contribution of their business relevance, to their parent groups. This creates potential asymmetries in risk exposure and strategic focus, which could negatively affect the credit intermediation in the host country. Legally binding capital and liquidity requirements are of course crucial for financial stability. Higher capital requirements enhance resilience to shocks on longer term and help prevent risk transfers from home to host countries. Nevertheless, in today's complex geopolitical and economic environment, some governments seek to boost growth by easing financial regulation. Over the past decade, the financial sector's value-added as a share of GDP has declined overall, with slight increases in home countries. Relying only on a few large EU-based "champion" banks could reveal as a non-sustainable strategy. Instead, the sector should focus on delivering diversified, value-added services that support sustainable growth and effective risk management. Making the financial sector more "competitive" by encouraging excessive risk-taking or risk concentration in branches and subsidiaries cannot be a suitable way forward, as it could be conducive to excessive risks for financial stability in the host countries.

Lessons learned in Slovenia in recent years support these concerns. While Slovenia's banking sector has recently posted strong returns, with ROE rising from 10.8% in 2022 to 20.6% in 2023, this is largely driven by favourable interest rates, low-cost deposits, and high excess liquidity. Nevertheless, credit growth to non-financial enterprises remained roughly stagnant in recent years, with rather little contribution to growth in investment and technological transformation. This shows that sole profitability of the banking sector may not necessarily translate into broader economic or societal benefits. Host countries, including Slovenia, therefore emphasize the need for strong legal safeguards in banking supervision. Waivers in capital and liquidity requirements can increase the risk of financial contagion between parent banks and subsidiaries, distorting competition. Ensuring compliance at the individual bank level remains essential for financial stability and effective oversight. While consolidated supervision adds value, it cannot replace entity-level prudential control. Current indicators—such as lending activity, NPL levels, and deposit trends—show no signs of a credit crunch. However, capital adequacy must be matched by liability allocation. National deposit guarantee schemes (DGSs) should thus not bear responsibility for subsidiaries if capital remains at the group level. Therefore, the third pillar, EDIS, should be resumed as soon as possible, as it would allow certain risks within this mechanism to be shared at the EU level.

Relying only on a few large EU-based "champion" banks could reveal as a non-sustainable strategy.

Slovenia supports efforts to simplify and streamline the Banking union (BU) regulation, backed by impact assessments on financial rules, capital measures, and operational feasibility across member states. We endorse reducing market fragmentation and harmonizing supervision, while respecting national specificities—especially in smaller markets. Complementary, unlocking new funding sources, increasing the resilience of supply of access to external finance for the economy, improving savings allocation, and supporting green and digital transitions, CMU can help diversify financing and enhance SME access to investment.

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A fragile union: How to regain momentum in Europe's stalled banking integration

Ten years after its launch, the European Banking Union remains unfinished business. What began as an ambitious response to the eurozone crisis has become stuck; caught between political hesitation, institutional disinterest, national defensiveness, and the strong influence of interest groups.

Despite the substantial progress achieved through the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), core components such as the European Deposit Insurance Scheme (EDIS) remain blocked. National ring-fencing and domestic bias continue to fragment the banking landscape, undermining the functioning of the single market.

The logic of the Banking Union was always clear: in a monetary union without a centralised fiscal backstop, a common system for supervising and resolving banks was essential to prevent the doom loops of the past. Yet today, further integration has become extremely difficult - even modest, technical reforms like the CMDI package have become deeply politicised. Although the final compromise on CMDI fell short of expectations, it still marked a step forward. Watered down as it may be, it demonstrated that partial movement is possible and, more importantly, preferable to paralysis.

A phased approach may now be the only realistic path. Measures such as improved resolution coordination and incremental steps toward EDIS could restore momentum and rebuild trust. These may seem technocratic in times of stability, but in periods of crisis, such tools can determine success or failure. This applies not only to instruments like the Single Resolution Fund (SRF) or national deposit guarantee schemes (DGSs), but also to institutions like the Single Resolution Board (SRB), whose credibility depends on clarity and shared commitment.

The continued absence of EDIS is not just economically suboptimal, it is politically illogical. It ignores the fundamental truth that in a banking union, we are all in the same boat. A categorical "no" to EDIS, as voiced by some governments, is not, at least so far, a negotiating position. It is a refusal to engage with both reality and previous political commitments. A gradual, phased-in EDIS, starting with liquidity support or reinsurance, would be both pragmatic and symbolically important. What is most damaging to Europe is not the slow pace of integration, but the outright rejection of any further progress, a stance that, regrettably, has become a reality in some areas.

Even modest reforms in the Banking Union are now hostage to political deadlock.

For the Banking Union to function effectively, there must be trust between national and European authorities in supervision, resolution, and crisis management. Supervisors must view themselves not merely as national watchdogs, but as participants in a shared European project. This requires transparency, predictable burden-sharing, and strengthened accountability for all actors involved. Experience has shown that trust is difficult to build during a crisis; it must be developed in peacetime through structured coordination, joint decision-making, and shared ownership of outcomes.

More broadly, the political impasse in the Banking Union reflects deeper tensions in the EU's economic governance. If we cannot move forward on a narrow, technical, and well-justified proposal like EDIS, how can we credibly claim to be ready to make Europe more competitive, resilient, and sovereign? As Mario Draghi recently warned, the choice is blunt: move forward or face a future of fragmentation, irrelevance, and economic decline.

The Banking Union has delivered more integration than many other parts of the single market. By contrast, the Capital Markets Union (CMU) remains disappointing, even its recent rebranding raises doubts. Some targeted proposals, such as a 28th regime for start-ups and scale-ups or DEBRA, offer a glimpse of a feasible path forward. But Member States remain reluctant to engage, even with such limited and well-targeted initiatives.

It can hardly be argued that delivering substantial progress in deepening the single market, as called for by Draghi and Letta in their reports, will be easier. Failure to advance on a relatively narrow and politically agreed-upon issue like EDIS casts doubt on the EU's ability to deliver on more complex reforms, which are crucial to strengthening Europe's competitiveness.

The geopolitical context adds further urgency. In a world marked by unprecedented uncertainty, growing security threats, economic coercion, and increased global fragmentation, deeper economic integration is not a luxury- it is a necessity. Completing the Banking Union is not merely about resolving legacy issues; it is about safeguarding Europe's future capacity to act.

RUI MIGUEL CORREIA PINTO
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Breaking the deadlock: A trust-based roadmap for completing the banking union

More than a decade after its launch, the Banking Union (BU) remains an ambitious yet unfinished project. Two of its three pillars — the Single Supervisory Mechanism and the Single Resolution Mechanism — have proved fully operational, with a clear alignment and ultimate common goals.

In recent years, we have witnessed increasing cooperation on the European authorities. The exchange of information between the European Central Bank (ECB) and the Single Resolution Board (SRB) continues to deepen and joint country visits, to debate the most pressing topics in each jurisdiction, have become more frequent. These developments reflect the growing integration and maturity of both functions. This contributes to building trust, but also ensure aligned risk assessments and coordinated actions. In many ways, the functioning of the BU today is closer to a single jurisdiction than before.

Yet, the BU remains incomplete and the absence of the European Deposit Insurance Scheme, although the most visible and acknowledged, is not the only missing piece.

Ring-fencing, limited cross-border integration and domestic bias are often cited as causes limiting the BU's full potential.

However, these are not root causes, they are consequences.

Instead of focusing on these symptoms, now is the time for the European Union to center on identifying and address the underlying causes.

We are at a moment where regulatory simplification is high on the agenda. Multiple initiatives are underway to assess how the current framework could be simplified, how different prudential and resolution requirements interact and how these could be further streamlined (or, as often said, made more efficient). We know it is a tendency that post-crisis regulations do not always survive the golden-years that follow. But should simplification be the first step for the BU to be complete?

Legislative initiatives have consistently highlighted the challenges of reaching agreement on key political issues, such as cross-border waivers or using mutualised funds from the Single Resolution Fund. The significant difficulties encountered during the CMDI review negotiations clearly illustrate this underlying problem.

The priority now should be to first set a clear and coherent roadmap. The challenge is, therefore, not just identifying what needs to be done, but in what sequence, and under what conditions, so that, ultimately, each step can build the necessary trust and political support to sustain the next. Institutions and Member States need to know where the BU is going, when each piece is expected to be in place, and how progress in one area will be matched by commitments in others.

BU needs a fully-fledged roadmap, while considering diverse banking landscapes across Member States.

However, trust cannot be legislated, it must be earned through consistency, transparency, and shared accountability. Trust will only be sustained if all stakeholders are confident that the framework is fair, credible, and responsive to their legitimate concerns.

Authorities remain deeply committed to making the BU work. Both the ECB and the SRB have built a strong track record of cooperation and joint delivery, and successfully demonstrated that, with commitment and collaboration, European and national authorities can deliver a strong and coordinated response. However, key pieces are still missing.

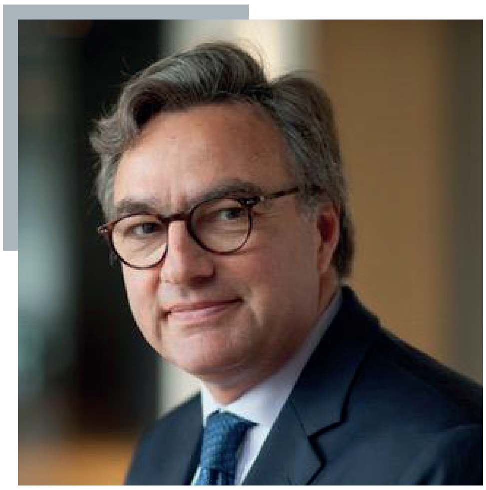
Before launching into more complex discussions on simplification and regulatory efficiency, or potential capital savings, we need clarity of purpose and unity of direction.

Achieving this requires a comprehensive plan which addresses capital and liquidity efficiency, effectiveness and simplification, while also reaching clear and shared positions on other key structural issues that ensure financial stability.

This also includes an open discussion about banking consolidation, essentially focused on greater diversification in shareholder bases (across geographies and investor types), and on solid banking structures that promote financial stability in the home and host jurisdictions. This can help reduce concentration risks and strengthen financial stability across the Union.

At the same time, supervisory and resolution frameworks must be strengthened and consistently applied to all material subsidiaries and branches, especially those that are critical for host jurisdictions, even if they are less significant from the group-wide perspective.

Completing the BU is not only about reducing market fragmentation or improving capital and liquidity efficiency and effectiveness. It is ultimately about building a resilient and trusted European banking system. This can be done gradually but only a complete BU, with a credible crisis management framework and a fully-fledged EDIS, can reduce fragmentation and unlock political discussions on the path toward a simplification of the overall prudential and resolution framework. We are still in a position to deliver on the original vision of the BU, and we should not settle for a halfway solution.



JACQUES BEYSSADE

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In those crucial times, how can we build a strong and resilient Banking Union?

After the financial and sovereign debts crises of 2008-2010, shaping a Banking Union was a pivotal initiative aimed at enhancing the stability and resilience of the European banking sector, as emphasized by the European Central Bank (ECB). The €6.4 billion acquisition of Novo Banco by BPCE in June 2025 was a major step for cross-border banking in the eurozone. However, it remains an exception. Europe still lacks strong financial champions, and the banking sector appears very fragmented. In reality, the Banking Union remains a "Union of banking supervisors".

A number of structural, regulatory, and political challenges continue to hinder the progress toward a strong and resilient Banking Union :

The first major challenge is regulation. Over the past 15 years, EU lawmakers, member states, and the European Parliament have added many layers of rules in a short time. The system is now very complex, with many authorities involved (EBA, SRB, ECB, national supervisors, ESRB) and different types of rules (Level 1, delegated acts, technical standards, guidelines, SREP decisions, etc.). This has led to higher capital requirements, increased costs, and overlapping rules. A clear example is the coexistence of MREL and TLAC ratios in Europe.

These rules also create threshold effects. For example, when a bank reaches €30 billion in assets, it becomes "significant" and is supervised by the ECB instead of its national authority. Larger banks (G-SIBs), face extra requirements on capital buffers and leverage ratio. This means that any merger in the banking sector brings extra costs before any benefits can be realized.

How rules are applied also matters. The European Commission recently raised concerns about the role of national authorities in bank mergers, especially in Italy and Spain. More broadly, national supervisors can use their powers to set extra requirements for foreign banks operating in their country. They might limit how capital is sent back to the parent company or restrict how resources are shared within a banking group. This "ring-fencing" of capital and liquidity is often justified by the lack of a European deposit insurance scheme—the missing third pillar of the Banking Union.

Because of all this, the EU banking market is still very fragmented compared to the US. The top five US banks hold around 40% of the market shares, while in the eurozone, the top five hold only about 20%. Without strong European banks, it's hard to build a truly integrated Banking Union. This is a strategic issue: the EU needs a strong and stable banking sector to support long-term growth and economic independence.

The Banking Union aims for stability, but key obstacles impede the banking sector consolidation.

So, what measures could be introduced to reshape the Banking Union?

A few targeted actions could help European banks become engines of investment, stability, and strategic autonomy.

First, we need to allow capital and liquidity to move freely across the eurozone. Right now, capital doesn't flow easily between countries, so many investment opportunities are missed. Savings in one country hardly fund projects in another. A truly integrated financial system would let capital go where it's needed most. That's why the roadmap for a Savings and Investment Union is so important.

Second, we should keep working to make the EU more competitive. This should be also a goal of financial supervision. Rules should not only protect stability but also support innovation, growth, and banks' ability to help the real economy. In 2026, the Commission will propose a review report of the EU capital requirement regulation. This is a key moment for all stakeholders to push for fair rules across countries and boost the competitiveness of EU banks.

Third, we should adjust resolution rules. Right now, EU rules go beyond global standards and create extra costs, making it harder for banks to lend. Consequently, we recommend full alignment of these requirements (MREL) with global norms (TLAC). This would free up capital for productive use and avoid placing European banks at a structural disadvantage.

These measures are crucial to ensure a more integrated, robust, and resilient Banking Union. As bankers, we have a crucial role to tackle the major challenges of our time, and we are also convinced that the major challenge will be the financing of major transitions. We share the objective of simplification of the regulatory landscape to ensure the long-term stability, efficiency, and strategic autonomy of the European banking sector. We reaffirm our full commitment to work with supervisory authorities and European policymakers in this perspective.

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Mind the banking gap: Why the EU must deliver EDIS now

Europe's Banking Union was launched with bold ambition but, over a decade later, its construction remains incomplete. Two pillars are in place. The third, arguably the most symbolic and politically sensitive – EDIS, a fully mutualised deposit insurance scheme – remains unfinished. With the CMDI review now finalised, and with the current EU competitiveness and growth focus, the time has come to push forward the creation of a real Single Market. We cannot have a truly Single Market without a complete Banking Union. What's at stake isn't just institutional balance, but the trust and integration needed to develop all the potential of the Economic and Monetary Union.

A completed Banking Union would not only support financial stability, it would redefine the euro area as a truly integrated market. But without EDIS, fragmentation persists. Depositors in one Member State may perceive more or less protection than in another due to the lack of political will to finalise the framework. Equal protection for all European depositors, backed by a common funding mechanism, is essential. EDIS is not just an insurance tool, it is the tool to ensure a free flow of funding and liquidity across countries to finance European businesses and people's needs. It would ultimately level the playing field and facilitate cross-border mergers.

First, we need to finalise EDIS. The CMDI reform was a welcome step, but it left the third pillar unaddressed. Now that the legislative dust has settled, the Commission should put the Banking Union back at the top of the political agenda and bring forward a concrete proposal. We support the inclusion of EDIS in the Savings and Investments Union roadmap, but this cannot remain a long-term aspiration. A well-designed EDIS would eliminate fragmentation in deposit protection and enhance trust in the resolution framework, which is key to reducing ring-fencing and restoring true cross-border integration. It would also reinforce the credibility of Europe's financial safety net and the EU's political cohesion.

Second, the amended ESM Treaty must be ratified. This is essential to activate the backstop to the Single Resolution Fund, and to give authorities confidence that resolution funding will be available in a systemic crisis. The political process to ratify the treaty has dragged on for too long. Member States must show commitment to common solutions and give the Banking Union the institutional credibility it deserves. Completing the ratification would send a strong signal of unity and readiness to address future risks collectively.

Third, we must address the missing piece in resolution: liquidity. No resolution plan can succeed without access to liquidity. A credible, publicly backed liquidity-in-resolution tool – perhaps provided by the ECB – must be created. The ability of resolved entities to meet short-term obligations, protect critical functions, and maintain confidence hinges on this tool. Resolution is about more than capital buffers; it is about confidence in execution and stability in motion. This element is still overlooked and must move from ambition to implementation. Other jurisdictions have it in place.

We cannot have a truly Single Market without a complete Banking Union.

In parallel, the debate on capital and liquidity waivers must move forward. A truly integrated Banking Union requires that cross-border groups be able to manage capital and liquidity holistically. This conversation must be tied to the broader discussions on sovereign exposures. Risk reduction and risk sharing must proceed in tandem, and EDIS is the bridge between them. Failing to align these debates risks perpetuating division and weakening confidence in the framework's future.

European authorities have been clear: completing the Banking Union is no longer a technical debate, it is a test of political resolve. Progress will require compromises. But further delay only fuels fragmentation and undermines the credibility of what has been built so far. Time is not neutral in this context. The longer the gaps persist, the greater the uncertainty for banks, investors, and citizens. This is critical for the competitiveness of the European banks and to allow the single market to become a source of growth of European companies and for our citizens.

The Banking Union must not become a monument to partial integration. We fully support its completion, starting with a renewed and binding commitment to EDIS, underpinned by a ratified ESM Treaty and a credible liquidity backstop. Member States must act decisively, setting aside domestic hesitation and recognising that a true union requires not only shared rules, but shared trust and political maturity. The path forward is clear, what remains is to walk it together.